

Item 58 – Uniform Regulatory Framework
Statement of PUC Commissioner Rachelle Chong
August 24, 2006

Colleagues:

This Uniform Regulatory Frameworks proposed decision is hefty because it handles a huge evidentiary record collected over a year and a half. I will spare you from a long litany of the decision's findings and policy recommendations, and instead attempt an overview.

This proposed decision represents an important milestone for California phone consumers. It has taken about 22 years to go from one national monopoly phone company to a fiercely competitive market characterized by hundreds of phone companies competing for your business. This rough-and-tumble phone competition has brought good things to our state's consumers -- high quality voice services at reasonable rates, a huge menu of rate plans, via state-of-the-art technologies.

It has also caused some customer confusion as the phone market makes this transition from monopoly to competition. This is why our June Consumer Education Initiative is so important to educating consumers about today's choices.

The proposed decision is also hefty because it has been 18 years since the Commission last undertook NRF, its New Regulatory Frameworks initiative. In those 18 years, the telecom world has been turned on its ear:

- * a multi player competitive wireless telephone market was created by the federal government;
- * the 1996 Telecom Act passed, bringing local phone competition;
- * the Internet has become a voice platform, and has future implications as the principal infrastructure over which voice may ride in the future;
- * cable has entered the voice market on upgraded infrastructure; and
- * new Voice Over Internet Protocol (VoIP) voice providers have joined the fray.

I salute last year's Commission for taking up the issue of major telecom reform and getting the URF proceeding going. It was long overdue.

The URF proceeding's goal was to go from the price cap era of the New Regulatory Frameworks or NRF, to a Uniform Regulatory Framework, or URF. Due to the lack of rate jurisdiction the PUC has over key players like the wireless and VoIP industries, we were not able to achieve a true uniform regulatory framework. We were not able to go from NRF to URF, but today, we have achieved a Sanguine Moderately Uniform Regulatory Framework, or SMURF.

The proposed decision finds that the four local telephone companies lack market power in California. We unshackle them from current regulatory chains, and free them to price and offer new voice services. Their competitors are not bound by the same regulations, so this levels the playing field between competitors.

The extensive record in this proceeding convinced me that consumers will benefit. In these competitive telecommunications markets, competition will drive phone prices towards cost. For many phone services, this will mean price decreases. For some services, it may mean price increases. Remember that even imperfect competition is superior to costly and burdensome government regulation.

While at the FCC, I was able to see the results of regulation -- and of deregulation -- at close hand. During the years that the FCC regulated long distance rates, the regulatory process in fact kept long-distance prices up, because the low-cost provider could only cut its prices after a complicated and drawn out regulatory proceeding. Once the FCC fully deregulated long distance rates including a full detariffing, long distance prices have decreased by 80%.

In the wireless phone market, the early duopoly structure and state rate regulation had the unfortunate effect of keeping cell phone prices up. Only when the FCC licensed multiple wireless carriers and pre-empted state price controls, did the nation see a proliferation of low-cost wireless services, vigorous competition, and cellular networks covering most of the nation. In the last decade, wireless prices have decreased from 47 cents per minute to 9 cents per minute.

Today California joins 21 states in deregulating its telecommunications market. I note that Commission is choosing to exercise regulatory forbearance. We will not regulate where it is not necessary, but we retain full authority to step in if we see market abuses.

Some parties in this proceeding have charged that there is not full competition. The record in this proceeding finds that this is not the case. You will see a plethora of data and findings in the record supporting our conclusions that the landline carriers lack market power given current levels of competition.

Those that argue that landline phone companies still have market power fail to recognize the scope of the FCC's national unbundling program. Each of the incumbent phone companies must still provide an unbundled loop for that last mile into the home to any competing carrier that wants it. Thus, for a minimal investment, a competitor can add broadband to that line and provide voice and data service.

In addition, cross-platform competition has arrived. This refers to competition between phone, cable, mobile and fixed wireless, satellite, and Internet companies. This intermodal competition is the result of years of massive investment and technological advances in the communications sector, mostly spearheaded in this country and in this state.

If a landline phone company tries to exercise market power, entry by a low-cost competitor -- by wire, by cable, or by wireless -- is sure to occur to drive the rates down again. This is what happens in a competitive market.

But all you really need do is turn on the radio or read a mailer to see that cable companies are offering voice, video and data services at very attractive bundled prices. While surfing the Net, ads will pop up for low cost Voice over Internet Protocol providers, like Vonage and Skype. Competition is here.

Consumer groups have made the point that low income citizens may be vulnerable in this new competitive telecom market. This proposed decision gained broad support because

we have made important commitments to protect our low income consumers. We have already begun two proceedings on our Universal Service programs to reform them also.

We include numerous consumer safeguards in this proposed decision:

For example, basic residential phone service is going to be frozen at current prices until January 1, 2009. Further, we have ordered the local phone companies to offer basic residential service on a stand alone basis, so they don't force a low income consumer to buy a bundle of items she does not want in order to get basic residential service.

LifeLine rates for low income consumers remain frozen until new policies are set in our already pending universal service, public programs proceeding, R.06-05-028. Basic residential rates in high cost areas remain fixed until new policies are developed in our universal service proceeding on the California High Cost Fund B, R.06-06-028.

I see regulatory reform for California as a three-legged stool. The first leg is to grant local carriers the pricing freedoms needed to meet competitors. Today's decision does this. The next leg of reform is to update the universal service programs to recognize competition and allow new technologies. This is underway. The third leg of reform is to reduce the high prices of switched access services that are used to subsidize high cost rural companies in both California and the nation. Currently, these access charges shift billions of dollars from urban to rural communities. We overpay as to wireless and long distance rates to subsidize landline phone rates in high cost areas.

I commend President Peevey who in the spring led the first efforts for state level reform in our access charge docket. As to the national access charge reform scene, with the filing of the Missoula Plan at the FCC, the ball is now in the FCC's court.

Competition and this reform is undeniably the right path. California is now part of it, and it is an important milestone we achieve today.

Finally, let me thank my colleagues for working so collegially with me over the last several weeks. We all wanted to do the right thing for consumers. This proposed decision does truly reflect the collective good thinking of this Commission. Many thanks are also due to my Senior Telecom and Water Advisor, Dr. Timothy Sullivan, for his invaluable guidance and intellectual assistance in making my way through these challenging issues. I also thank our hard-working Goldman School intern, John Kowalski. Thanks are also due to Judge Jacqueline Reed, for developing the record, presiding over many hearings, and her vital drafting assistance. The Telecom Division staff also helped in so many critical ways during the past year and a half. And last but certainly not least, Jennie Chandra, Robert Haga, Lynn Carew, Vana White and Chris Mei, who lent their many talents to support this project.

I ask your support for today's proposed order and move its adoption.